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GATT Negotiators Reach Framework Agreements

The operation to revive the Uruguay Round of the General Agreement on Tariffs and Trade would not be easy, the conventional wisdom said. In fact, one independent observer already had pronounced the patient dead. As trade negotiators from about 100 countries gathered in Geneva in early April to try to advance the GATT process, they could have been forgiven a little pessimism concerning the marathon effort that began in 1986 and will last until at least 1990. Barely past the midway point, the negotiators had met in Montreal last December. While acrimonious, that session nevertheless produced a series of tentative "framework" agreements on a variety of subjects. But it also highlighted the bitter disagreement between the United States and the European Community on what to do about agriculture (see JEI Report No. 47B, December 16, 1988).

- To negotiate rules on intellectual property rights.

The framework agreements vary tremendously in their specifics for future negotiations. Some observers worry that an inordinate amount of time has been spent laying out the course and reviving the patient. The next year and a half is more likely to resemble a sprint than a marathon. Observers hope the patient, somewhat recovered but not yet fully healthy, is up to the task.

Douglas Ostrom

Manufactured Imports Continue Surging

In a current magazine advertisement, a Japanese consumer electronics company shows a picture of a large, U.S.-style television set in a Japanese-style room. The TV set is the product of the firm's U.S. factory. The company obviously takes great pride in the message of the advertisement -- that it is selling American-made products in Japan. An American critic might respond with a better-late-than-never air, even if the manufacturer is not U.S.-owned. For years, American firms and others have argued that since Japan sells large amounts of manufactured goods in overseas markets, the same result should be expected at home. To date, these critics have added, that has not been the case.

Few would argue the facts in that accusation. Japan has been, and continues to be, unusual among industrial nations in buying relatively few manufactured products from overseas. Many countries, for example, are both large importers and exporters of cars, reflecting the desire of car buyers to have a variety of models available. Japan's automotive imports, while up sharply in recent years, are a mere trickle compared to exports.

Japan's imports traditionally have been concentrated on industrial and agricultural inputs. As Japan's trade surplus has grown, the limited volume of manufactured imports has become more conspicuous (see JEI Report No. 14A, April 8, 1988). Some American experts have argued that Japan's trade structure is not skewed given its size and resource endowments, but they have been outnumbered if not out-argued. Pressure to do something about the low level of manufactured goods has intensified in recent years.

However, even as Japan's critics spoke, the situation was changing, as the table shows. Japan's imports of manufactured goods have been rising as a percentage of total imports for years, a surge that continued in 1988. In both volume and dollar terms the increase in manufactured goods imports has accelerated along with the depreciation of the American currency. While dollar-denominated manufactured imports were up a modest 22.3 percent between 1982 and 1985, in the three years between 1985 and 1988 they more than doubled.

Will this rise continue? Yes, for at least two reasons.

- In Japan -- as elsewhere -- imports of manufactured goods tend to rise rapidly, both absolutely and in comparison to other imports, when the economy grows rapidly. That accounts for much of the long-term expansion trend seen in the table for imports of manufactured goods. Almost all experts expect Japanese economic growth to continue at a healthy pace, pulling more manufactured products into the country as a percentage of all imports.

• In addition, shipments of manufactured goods respond more significantly than industrial and agricultural raw materials to exchange rate changes. This second factor undoubtedly accounted for the spurt in manufactured imports in 1986, a year of sluggish economic growth in Japan but one where the dramatic appreciation of the yen that started in 1985 began to take hold.

Some of the changes in the structure of relative costs that have followed in the wake of the high yen still are being digested, suggesting that further increases in manufactured imports can be expected. For example, many Japanese manufacturing firms just now are in the process of building or starting up overseas production facilities. While these transplants so far export relatively little to Japan, the percentages are likely to increase. Japanese retailers still are discovering the virtues of supporting the development of low-cost foreign sources of supply, something American chains such as Sears, Roebuck & Co. learned years ago. As department stores and other big retail operations get the knack of this practice, imports of manufactured goods, especially from low-cost Asian countries, will rise. Manufactured imports could get a further boost from the widely expected additional appreciation of the yen.

Japan's Imports of Manufactured Goods, 1982-88

	Value (millions of dollars)	Percent of All Imports	Growth of Volume	
			All Imports	Manufactures
1982	$32,827	24.9%	-0.6%	0.6%
1983	34,361	27.2	0.8	2.5
1984	40,614	29.8	10.5	20.2
1985	40,157	31.0	0.4	1.8
1986	52,781	41.8	9.5	22.6
1987	65,961	44.1	9.3	12.5
1988	91,838	49.0	16.7	30.5

Source: Ministry of Finance

Few expect that an increase in manufactured products alone could shrink Japan's trade surplus appreciably. In the face of an unprecedented increase in manufactured imports in 1988, the gap narrowed only slightly. But without such a flow, the surplus would be much harder to reduce, depending primarily on an unlikely reduction in the value of Japanese exports abroad.

Some viewers of the advertisement mentioned at the start might get a message different from the intended one: the scene is incongruous and obviously symbolic. In fact, the maker sells a limited number of U.S.-made TV sets in Japan. More generally, imported consumer products still are the definite exception. Real change will have arrived when magazine readers flip past the picture of a U.S.-manufactured product in a Japanese home.

Douglas Ostrom